



Trust • Excellence • Service

Department of Administrative Services

(40300)



PURCHASING CARD AUDIT

Final Audit Report
June 5, 2008

Executive Summary

Department of Administrative Services

40300

Purpose and Objectives

The Process Improvement Team from the Department of Administrative Services, State Purchasing Division, recently conducted a process improvement review of the purchasing card program at the Department of Administrative Services (DOAS) for the period August 28, 2006, through September 27, 2007. This review had the following purposes:

1. To determine if purchasing card activities complied with the Statewide Purchasing Card Contract Guide and Agency policies and procedures;
2. To identify "best practices" that the Agency has implemented;
3. To identify areas of risk to the Agency and/or to the State; and
4. To develop action plans for improvement of the program as implemented at the Agency, if warranted.

Each State organization has a responsibility to ensure that their purchasing card activities are controlled and that their risks are prudently and soundly managed. It is the responsibility of the Process Improvement Team within State Purchasing Division to assess use of and controls on the program. The Process Improvement Team uses a risk-based approach to classify areas in need of improvement into pre-defined high, medium, and low risk levels. This report discusses only the high and medium risk levels and summarizes the results of the review, recognizes areas of outstanding program management, and presents recommendations for improvements.

Scope and Methodology

The evaluation of the State Purchasing Card Program as implemented at DOAS included the following: a review of the Agency's purchasing card policy; a review of the transaction data; conversations with personnel involved in the day-to-day operations of the program; and an on-site review of the documentation for a sample of transactions.

The review consisted of three (3) program areas:

1. Internal Controls Review – an examination of the Agency's purchasing card policy and internal controls over the program;
2. Transaction Data Review – a review of transaction analysis reports in Works Payment Manager;
3. On-Site Review to determine if:
 - a) The Agency maintained adequate documentation for all transactions;
 - b) Management oversight of card activity, including supervisory review, met minimum requirements as outlined in the State Contract Guide;
 - c) Cardholders complied with transaction limits imposed on the cards;
 - d) Transactions complied with requirements of the Official Code of Georgia (O.C.G.A.), the State Purchasing Card Contract Guide, and Agency policy with respect to types of purchases allowed on the card; and
 - e) Employees complied with the Agency's internal policy for use of the card.

Acknowledgements

The Process Improvement Team would like to thank Charles Petty, Director of Administration; Tim Wright, Accounting Director; and Matt Carter, Procurement Manager, for their assistance and cooperation during the review.

The Process Improvement Team would also like to recognize the progressive plan of action taken by management to improve the overall Agency program as a result of this review. Management has already implemented many of the recommendations discussed during the exit conference, including reviewing major policy requirements with cardholders and updating the cardholder monthly log.

Summary of Outstanding Program Management

The purchasing card program exhibits characteristics of a well-managed program. Areas noted for special recognition are:

1. The files were well organized and contained the cardholders' logs of transactions showing charging information; the signed and approved cardholder monthly billing statements; and adequate documentation for most of the purchases.
2. Agency personnel conduct quarterly reviews of the cardholder statements to ensure that transactions are for legitimate business needs.
3. Most transactions for equipment, such as printers and other items that could be easily carried off or misappropriated, contained documentation of decal numbers assigned to the items.
4. Cardholders in the Risk Management area date-stamped and signed packing slips and/or invoices indicating that the items had been received. This is a good practice for cardholders to follow, especially when cardholders order items for other employees and the merchant ships the order directly to the other person.

Other exemplary actions management has taken as a result of this review are:

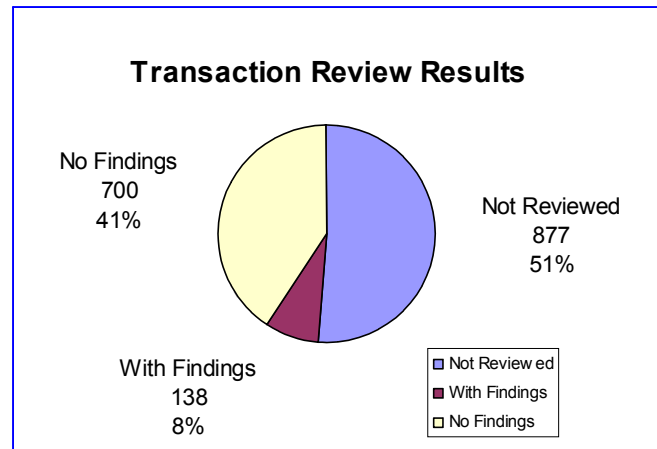
1. Management has conducted a meeting with all cardholders at which the results of this review were discussed and issues addressed.
2. The purchasing card log has been modified (see Exhibit A) to include a statement that, by signing the log, the cardholder acknowledges receipt of all goods and/or services reflected in the transactions. This change was made for assurance that the cardholder is verifying receipt when receiving employee is someone other than the cardholder.

Summary of Findings

Cardholders made 1,715 transactions during the period under review totaling \$568,837.08. As shown on the chart to the right, the Process Improvement Team reviewed 838, or 48.86%, of these transactions. Of the reviewed transactions, 138 (16.46%) contributed to three (3) findings related to transactions. Review of the Agency Purchasing Card Policy and administration of the program resulted in two (2) findings related to program administration.

This report presents recommendations to ensure that the Agency complies with the standards included in the new State Purchasing Card Policy issued by State Purchasing Division in November 2007. Other recommendations include additional training for management to gain greater knowledge of program management and Works Payment Manager.

The tables below summarize the areas for improvement according to risk level and program area, along with suggested mitigation strategies for improving program administration.



The Process Improvement Team will perform a follow-up review no later than 12 months from the date of this report to determine level of improvement in these areas.

High Risk Areas

Finding	Analysis Area	# of Occurrences	Dollar Volume	Mitigation Strategy	Page #
Out-of-Date Purchasing Card Policy	Internal Controls	1	N/A	Revise internal policy; training	5
No Documentation in File	On-Site Review	41	\$9,077.51	Strengthen internal controls; training	7-8
Inadequate Invoice Information	On-Site Review	76	\$56,544.42	Strengthen internal controls; training	9-11
Payment of Sales Tax	On-Site Review	25	\$176.71	Strengthen internal controls; training	11-12

Medium Risk Areas

Finding	Analysis Area	# of Occurrences	Dollar Volume	Mitigation Strategy	Page #
No Review of Declined Transactions	Transaction Data	1	N/A	Works Pmt Mgr Training	6

Findings by Program Area

Internal Controls

1. Out-of-Date Purchasing Card Policy

The Department of Administrative Services' Purchasing Card Policies and Procedures Manual (policy) in effect during the review period was dated July 1, 2001. Review of transactions showed a lack of compliance with the Agency policy requirements. Although the policy complied with the State Purchasing Card Contract Guide, the policy had not been updated to reflect changes in actual practices.

Management revised the policy in August 2007 but has not implemented the new version as of the date of this review. The new version does not reflect changes to the statewide policy issued in November 2007.

Implication: 1) Cardholders appear to be violating policy when they are not; and 2) the Agency is not using the card to its full potential because of out-of-date or inaccurate restrictions on allowable purchases.

Level of Risk: **High** due to 1) lack of up-to-date internal policies and procedures; 2) non-compliance with existing guidelines; and 3) lack of sound internal policies and procedures.

Reference: Statewide Purchasing Card Contract Guide

Recommendation:

The Statewide Purchasing Card Contract Guide required agencies to have a purchasing card policy that both complied with the statewide policy and addressed the unique needs of the Agency.

It is recommended that management review the August 2007 version of the Agency policy prior to issuance to ensure that it complies with and addresses requirements of the new State Purchasing Card Policy and the State Purchasing Card Administrative and User's Guide, issued in November 2007. It is also recommended that management send a copy of the updated policy to Process Improvement for review.

It is further recommended that the program administrator take advantage of the new Introduction to Purchasing Card Principles course offered by the Professional Development unit within State Purchasing Division for assurance that Agency cardholder training is administered according to current guidelines.

Action Plans:

1. Review the new State Purchasing Card Policy and Purchasing Card Administrative and User's Guide by February 29, 2008, to ensure that the unpublished August 2007 version of the Agency policy complies with new and/or changed requirements.

2. Provide a copy of the updated Agency purchasing card policy to Process Improvement by February 29, 2008.
3. Ensure that all cardholders have reviewed the new State and Agency policies by February 29, 2008.
4. DOAS Card Program Administrator should attend the Introduction to Purchasing Card Principles training session offered by the Professional Development team within State Purchasing Division by March 31, 2008. Schedule and registration information for this class is shown on Exhibit B.
5. Process Improvement will review the updated policy and provide feedback within 30 days of receipt of the new policy.

Transaction Data Analysis

1. No Review of Declined Transactions

Works Payment Manager has a report that shows all declined transactions and the reasons for the decline. Management had not reviewed this information prior to the review conducted by the Process Improvement Team.

Implication: 1) Management is not utilizing all of the program administration tools available; and 2) cardholders could be trying to circumvent spending limits or other policies.

Level of Risk: **Medium.** This is an area where management can take advantage of administrative and data analysis tools.

Reference: Memorandum from DOAS Commissioner dated July 27, 2006, concerning use of Works Payment Manager – Exhibit C.

Recommendation:

The Process Improvement Team sent the Declined Transactions Report to the Agency Program Administrator during the review with a request for information as to what types of purchases the cardholders were attempting. The report reflected charges against invalid Merchant Category Codes, indicating that the cardholder was attempting to make a purchase that was not allowed or that was restricted.

It is recommended that management review this report on a regular basis. Review would enable management to identify opportunities for training or reinforcement of policy requirements. Management should also provide a copy of the report for the cardholders of the two attached agencies, the Office of State Administrative Hearings and the Office of Treasury and Fiscal Services, to management of those Agencies for their review.

A common reason for declines on this report is the cardholder did not have a large enough credit limit. Regular review of this report can enable management to review actual spending patterns against cardholder profiles to determine if credit limits are adequate for the job responsibilities.

Another reason for declines is that merchants were attempting to run a recurring transaction against a closed account. In order to avoid this type of occurrence, it is

recommended that cardholders maintain a record of all merchants who have recurring charges. If the Agency closes the cardholder account, management could notify the merchant of the new account number in order to prevent disruptions of delivery of goods or services.

Action Plans:

1. The State Purchasing Card Program Manager will coordinate proper training for management on how to run reports and the meaning of any unfamiliar terms or abbreviations within 30 days of the date of this report.
2. Review all data analysis tools in Works Payment Manager, including Audit Reports and Card Reports, and establish a regular schedule for review of reports, including the Declined Transactions Report, by February 29, 2008.
3. Incorporate management responsibility for regular review of reports, including sending the reports to the attached Agencies, into the Agency purchasing card policy by February 29, 2008.

On-Site Review

1. No Documentation in File

Transactions in the table below did not have any documentation on file to support the charge. In some cases, indicated by an asterisk (*) before the vendor name, management stated that the merchant does not provide invoices for regular, recurring charges.

[A list of transactions contributing to this finding was provided to the Department of Administrative Services.](#)

Implication: 1) Fraudulent transactions could go undetected; and 2) inadequate supervisory review.

Level of Risk: **High** due to 1) number of occurrences (41); and 2) dollar volume of \$9,077.51.

Reference: State Purchasing Card Contract Guide

Recommendation:

It is recommended that cardholders attach some form of documentation to the monthly log or billing statement for every transaction. For those merchants that do not send paper or electronic invoices or statements, this can be a copy of the original purchase indicating that they do not send monthly statements. Management should incorporate guidelines as to what constitutes appropriate transactions into the Agency policy using the information in the State Purchasing Card Policy dated November 2007 as a reference.

It is further recommended that the program administrator take advantage of the new Introduction to Purchasing Card Principles course offered by the Professional

Development unit within State Purchasing Division for assurance that Agency cardholder training is administered according to current guidelines.

Action Plans:

1. Agency Purchasing Card Policy should be updated by February 29, 2008, to reflect specific guidelines regarding appropriate documentation.
2. DOAS Card Program Administrator should attend the Introduction to Purchasing Card Principles training session offered by the Professional Development team within State Purchasing Division by March 31, 2008. Schedule and registration information for this class is shown on Exhibit B.
3. Management should provide training to cardholders and their supervisors relating to adequate documentation by February 29, 2008.

2. Inadequate Invoice Information

The Process Improvement Team reviewed the invoices and receipts to determine if cardholders maintained adequate accountable documents as required by the State Purchasing Card Contract Guide. The transactions shown in the following table did not meet the required standards.

[A list of transactions contributing to this finding was provided to the Department of Administrative Services.](#)

Implications: Fraudulent use could go undetected.

Level of Risk: **High** due to 1) number of occurrences (76); and 2) dollar volume of \$56,544.42.

References: State Purchasing Card Contract Guide
Georgia Vendor Manual Chapter 8, Section 8.2

Recommendation:

It is recommended that management include detailed explanations of what is considered adequate documentation in the Agency policy. It is further recommended that the program administrator take advantage of the new Introduction to Purchasing Card Principles course offered by the Professional Development unit within State Purchasing Division for assurance that Agency cardholder training is administered according to current guidelines. Specific training should be provided to cardholders and their supervisors on what constitutes adequate documentation.

The Georgia Vendor Manual describes the information that invoices should reflect. The information applicable to purchasing card invoices or receipts is vendor information; date of the purchase; line item descriptions, quantities, and prices; and total amount of the charge. In the case of transactions for professional membership dues, invoices should reflect the nature of the membership and the employee for whom the membership was paid. Subscription order forms or renewal forms showing the length of the subscription should support any charges for subscriptions to magazines or newspapers. Adequate

documentation for printing jobs includes a description and/or copy of what was printed or, as in the case of newspaper advertisements, a copy of the advertisement.

Action Plans:

1. Management should incorporate guidelines as to what constitutes appropriate documentation for transactions into the Agency policy using information in the State Purchasing Card Administrative and User's Guide dated November 2007 by February 29, 2008.
2. DOAS Card Program Administrator should attend the Introduction to Purchasing Card Principles training session offered by the Professional Development team within State Purchasing Division by March 31, 2008. Schedule and registration information for this class is shown on Exhibit B.
3. Management should provide training to cardholders and their supervisors relating to adequate documentation by February 29, 2008.

3. Payment of Sales Tax

Department of Administrative Services had 25 transactions totaling \$3,167.05 that had sales tax paid of \$176.71. The transaction in the table below contributed to this finding.

[A list of transactions contributing to this finding was provided to the Department of Administrative Services.](#)

Implication: State has paid more for goods than it should have, resulting in a financial loss.

Level of Risk: **High** due to 1) number of occurrences (25); and 2) dollar amount of \$176.71.

References: O.C.G.A. § 48-8-31(1)
State Purchasing Card Contract Guide

Recommendation:

Section 48-8-3(1) of the Official Code of Georgia, Annotated, exempts State agencies from payment of State Sales and Use Tax when payment is made directly by the Agency regardless of the method of payment. The State Purchasing Card Contract Guide requires cardholders to inform merchants of the Agency's tax-exempt status.

Cardholders should print copies of the Department of Revenue's Form ST-5 to provide to merchants who request documentation for their files. Cardholders, supervisors, and reconciliation personnel should review all documentation to ensure that the merchant did not charge tax. If the merchant charged tax, then the cardholder should contact the merchant to receive immediate credit.

Action Plans:

1. Management addressed the sales tax issue with all cardholders in a training meeting conducted following this review. Copies of the Department of Revenue

Sales and Use Tax Exemption form, Form ST-5, should be made available to all cardholders and included in Agency policy by February 29, 2008. Instructions on how to retrieve copies of this form from the Department of Revenue web site can also be made part of Agency policy.

2. By February 29, 2008, incorporate into Agency policy management's responsibility for regular review of sales tax charged to ensure that cardholders request and receive timely credit for any amounts charged.
3. This topic is addressed in the Introduction to Purchasing Card Principles offered by the Professional Development Team within State Purchasing Division. DOAS Card Program Administrator should attend one of these sessions by March 31, 2008. Schedule and registration information for this class is shown on Exhibit B.

Action Plan Summary

Training Requirements

For appropriate program administration personnel, approving officials, and cardholders.

Resulting from Finding	Purpose	Conducted By	Date Due	Completion Date
Internal Controls				
Out-of-Date Purchasing Card Policy	Ensure Card Program Administrator is familiar with current statewide policy.	DOAS Card Program Administrator should attend the Introduction to Purchasing Card Principles class	03-31-08	03-12-08
Out-of-Date Purchasing Card Policy	Ensure cardholders are familiar with new State and Agency policies	DOAS Card Program Administrator notify all cardholders of new policies and meet with them as necessary to ensure their understanding of State and Agency policies	02-29-08	12-10-07
Transaction Data				
No Review of Declined Transactions Report	Identify attempts to use cards at unauthorized locations Analyze monthly cycle limits to determine appropriateness	State Purchasing Card Program Manager will coordinate training to ensure that personnel understand the contents of the reports within 30 days of the date of this report.	02-29-08	01-31-08
On-Site Review				
No Documentation in File	Ensure Card Program Administrator is aware of documentation requirements	DOAS Card Program Administrator should attend the Introduction to Purchasing Card Principles class	03-31-08	03-12-08
No Documentation in File	Ensure cardholders and supervisors are aware of requirements	DOAS management will provide cardholder and supervisor training	02-29-08	12-10-07
Inadequate Invoice Information	Ensure Card Program Administrator is aware of documentation requirements	DOAS Card Program Administrator should attend the Introduction to Purchasing Card Principles class	03-31-08	03-12-08
Inadequate Invoice Information	Ensure cardholders and supervisors are aware of documentation requirements	DOAS management will provide cardholder and supervisor training	02-29-08	12-10-07

Resulting from Finding	Purpose	Conducted By	Date Due	Completion Date
Payment of Sales Tax	Ensure cardholders and supervisors are aware of requirements	DOAS Card Program Administrator should attend the Introduction to Purchasing Card Principles class	03-31-08	03-12-08

Other Requirements

For appropriate program administration personnel, approving officials, and cardholders.

Resulting from Finding	Requirement	Purpose	Due Date	Completion Date
Internal Controls				
Out-of-Date Purchasing Card Policy	Update Agency policy to ensure compliance with new State policy	Provide guidance to program personnel; strengthen internal controls	02-29-08	12-10-07
Out-of-Date Purchasing Card Policy	Submit a copy of the updated Agency policy to Process Improvement	Allow Process Improvement provide feedback	02-29-08	12-10-07
Out-of-Date Purchasing Card Policy	Process Improvement will review updated Agency policy	Provide feedback in order to ensure that new policy complies with State policy	03-31-08	12-10-07
Transaction Data				
No Review of Declined Transactions Report	Establish schedule for regular review of Declined Transactions Report from Works Payment Manager	Strengthen internal controls	02-29-08	01-31-08
No Review of Declined Transactions Report	Establish regular transmittal of Declined Transactions Report to attached Agencies' management	Provide resource to attached Agencies' management to assist review of cardholder activity	02-29-08	01-31-08
On-Site Review				
No Documentation in File	Update Agency policy to reflect specific guidelines on adequacy of documentation	Provide guidance to program personnel; strengthen internal controls.	02-29-08	12-10-07
Inadequate Invoice Information	Update Agency policy to reflect specific guidelines on adequacy of documentation	Provide guidance to program personnel; strengthen internal controls.	02-29-08	12-10-07

Resulting from Finding	Requirement	Purpose	Due Date	Completion Date
Payment of Sales Tax	Make copies of DOR Form ST-5 available to all cardholders and include instructions for obtaining from Department of Revenue web site	Ensure that Agency does not pay sales tax	02-29-08	12-10-07
Payment of Sales Tax	Incorporate review of sales tax charges into Agency policy	Ensure that Agency receives credit for sales tax when charged	02-29-08	12-10-07